

**BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN**

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Application of Wisconsin Energy Corporation for  
Approval to Acquire the Outstanding Common Stock of  
Integrus Energy Group, Inc.

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Docket No. 9400-YO-100

**DIRECT TESTIMONY OF STEVEN J. VOCK**

1     **Q. Please state your name and business address.**

2     A.           My name is Steven J. Vock. My business address is The Titus Group ("Titus Energy"),  
3                1200 N. Mayfair Rd, Suite 200, Milwaukee, WI 53226.

4  
5     **Q. What is your occupation and by whom are you employed?**

6     A.           I am an energy consultant and the Practice Director for Titus Energy. I am also the  
7                Technical Director of Jobs4WI, Inc.

8  
9     **Q. Please describe your education and professional experiences.**

10    A.           I received my Bachelors of Science in Civil Engineering from Bradley University in 1986.  
11                I've provided expertise in energy conservation measures, utility rate optimization and  
12                competitive electricity procurement for a variety of customers in the Midwest and nationwide  
13                over a 25-year period. I am also a registered Professional Engineer in the state of Wisconsin. In  
14                November, 2008, I joined Titus Energy where I have provided a wide variety of services,  
15                including an independent evaluation of the decoupling rate mechanism for Avista's natural gas  
16                utility in the state of Washington, rate tariff analysis, rate case testimony and system economic  
17                analysis.

1 **Q. On whose behalf are you testifying in this proceeding?**

2 A. I am testifying on behalf of Jobs4WI, which seeks to return Wisconsin's industrial power  
3 rates to a competitive position on behalf of Wisconsin's largest industries.  
4

5 **Q. What is the purpose of your testimony in this proceeding?**

6 A. The purpose of my testimony is to provide information showing that the pending  
7 transaction wherein Wisconsin Electric Corporation ("WEC") will acquire all of the outstanding  
8 shares of Integrys Energy Group, Inc. ("Integrys") is not in the best interests of the public in the State  
9 of Wisconsin or the Public Utilities Commission of Wisconsin ("PSCW"), the Wisconsin Electric Power  
10 Company ("WEPCO") customers or the Wisconsin Public Service Corporation ("WPS") customers.

11 **Q. Please summarize the results of your analysis.**

12 A. The summary of my testimony is as follows:

- 13 • It is not in the best interests of the public in the state of Wisconsin to approve this transaction  
14 because it does not benefit from the consolidation of two of its largest independent utilities  
15 under the management control of one board of directors and holding company structure that  
16 controls both utilities and the American Transmission Company. If approved, Wisconsin's  
17 industrial electric rates will remain some of the highest in the country, keeping Wisconsin  
18 Manufacturers uncompetitive.
- 19 • It is not in the best interests of the public to allow this transaction to proceed because its  
20 regulatory body, the PSCW, will suffer a significant diminution of its ability to craft effective  
21 public utility regulation with a smaller, less diverse regulatory portfolio.
- 22 • This transaction is not in the best interests of the consumers of either WEPCO or WPS (who will  
23 become the majority of Wisconsin's rate payers if this transaction is approved) because WEC has

1 failed to provide tangible proof that rate payers will ever achieve lower electric rates or any  
2 other benefits resulting from this transaction than would otherwise occur over the long term.

- 3 • The interests of Wisconsin’s utility investors will not be harmed in their ability to raise equity or  
4 debt capital if the transaction is not approved.

5 **Q. Why is it not in the best interests of the public in the State of Wisconsin for the PSCW to approve**  
6 **the proposed transaction?**

7 A. Wisconsin currently has four large, independently owned and managed electric utilities  
8 serving the public. WEPCO, WPS, Wisconsin Power and Light (“WPL”) and Northern States Power  
9 (“NSP”). While WEPCO, WPS, NSP and WPL are all owned by holding companies, in each case, the  
10 Wisconsin utility subsidiary is regulated by the PSCW as a stand-alone utility in Wisconsin. The PSCW  
11 now can test different methods of regulation, cost recovery, etc. in different service territories while  
12 limiting the risks of unintended consequences statewide. If WPS and WEPCO are allowed to be  
13 controlled by a single holding company, over half of Wisconsin’s electric customers will be served by  
14 these two utilities which will be led by a common board of directors and top management. Thus,  
15 WPS and WEPCO will be merged into a single enterprise with common goals, leadership and  
16 philosophy. We can expect to see uniform operations, policies and results from both utilities as they  
17 will be controlled by the same holding company. Unexpected regulatory outcomes will be magnified  
18 over a large area in Wisconsin. Any additional rate increases over such a large service territory will  
19 have a significant detrimental impact on Wisconsin’s economy. Also, while attempting to attract  
20 and retain good paying jobs, Wisconsin has some of the highest industrial electric rates in the  
21 country among manufacturing intensive states as shown in Figure 1 below.

Figure 1	Top 10 Manufacturing Dependent States													
	Average Industrial Power Rates (cents/kWh)													
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Rank
United States	5.05	4.88	5.11	5.25	5.73	6.16	6.39	6.96	6.83	6.77	6.82	6.67	6.82	
Alabama	3.79	3.82	3.98	4.15	4.52	4.90	5.27	6.11	5.96	6.01	6.25	6.22	5.99	5
Indiana	4.11	3.95	3.92	4.13	4.42	4.95	4.89	5.46	5.81	5.87	6.17	6.34	6.59	8
Iowa	4.18	4.06	4.16	4.33	4.56	4.92	4.74	4.81	5.27	5.36	5.21	5.30	5.66	2
Kentucky	3.04	3.09	3.21	3.34	3.60	4.05	4.47	4.82	4.92	5.05	5.33	5.35	5.40	1
Michigan	5.08	5.02	4.96	4.92	5.32	6.05	6.47	6.73	6.98	7.08	7.32	7.62	7.78	10
North Carolina	4.61	4.70	4.79	4.88	5.04	5.23	5.47	5.54	5.99	6.17	6.01	6.42	6.34	7
Ohio	4.27	4.87	4.79	4.89	5.10	5.61	5.76	6.20	6.72	6.40	6.12	6.24	6.10	6
Oregon	4.21	4.72	4.63	4.43	4.83	4.85	5.06	5.26	5.40	5.40	5.47	5.59	5.86	3
South Carolina	3.86	3.85	4.00	4.13	4.55	4.71	4.83	5.37	5.79	5.74	5.94	6.02	5.92	4
Wisconsin	4.36	4.43	4.71	4.93	5.39	5.85	6.16	6.51	6.73	6.85	7.33	7.34	7.54	9
Average	4.15	4.25	4.32	4.41	4.73	5.11	5.31	5.68	5.96	5.99	6.12	6.24	6.32	
All cost data obtained from EIA.														
Top 10 Manufacturing Dependent States determined by combined ranking of manufacturing's share of employees and gross state output.														
Manufacturing economic data is from two reports published by the National Association of Manufacturers that detailed Manufacturing's share of Gross State Product and Employment for each state, which cite the Bureau of Economic Analysis as the data source.														

Nothing in the record suggests any form of rate reduction or other relief that would benefit Wisconsin rate payers. Wisconsin's manufacturing sector is struggling to remain competitive in a national market and the approval of this transaction will assure higher rates for decades to come.

**Q. Why is it not in the best interests of the public to limit the ability of the PSCW to regulate a diverse group of independently managed utilities?**

A. The PSCW has been a national laboratory of regulatory creativity and, for decades, has been a national leader in regulatory policy. The PSCW currently regulates four very distinct electric utilities operated by different professional management teams. As such, the PSCW can experiment with different tariff designs, generation models and other policy issues in one or more service territories that allow flexibility in rate regulation. This dynamic limits the damage from regulatory approvals or decisions in one service territory that turn out to be less than expected. It also allows for experimentation that can be tested in one service territory and then rolled out state-wide, if successful.

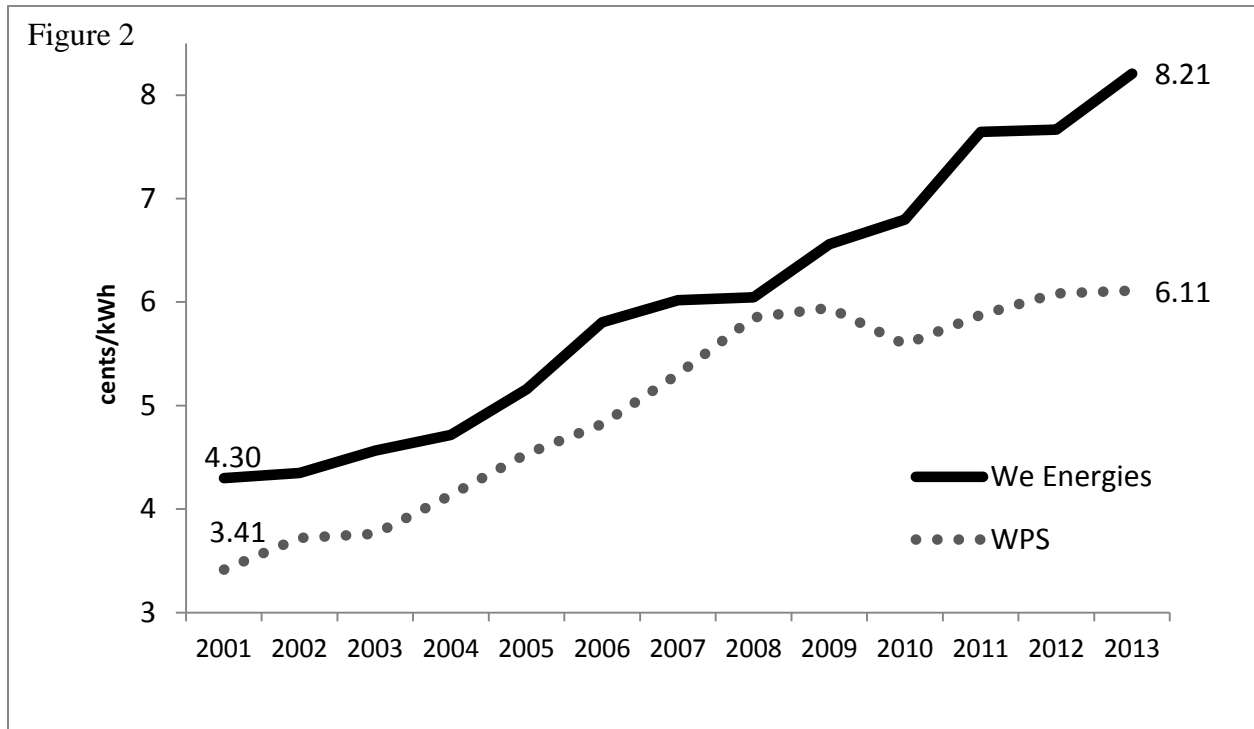
For example, Charter Steel pointed out in the recent WEPCO rate case that WEPCO's Power The Future ("PTF") program has become problematic and expensive. (PSC Ref# 218925, p.5-8) In

1 retrospect, the PTF program, to date, has not proven to be a better or cheaper method of financing  
2 generating assets. As WEPCO is only one of four regulated electric utilities in the state, the damage  
3 caused by the approval of PTF has been limited to WEPCO's territory and the extraordinary rate  
4 increases resulting from that decision have been limited to WEPCO rate payers. If WPS would have  
5 decided to adopt the PTF model, the damage in the state would be far more widespread. The  
6 combined entity will control the generation and distribution utility services for the eastern half of  
7 the state and hold a majority ownership of the transmission utility serving that region. One good  
8 intentioned, yet ill-fated, policy will be amplified to affect over half of the state's population and  
9 industrial base because of this diminution of diversity within the regulated sector.

10 Additionally, in the past, the PSCW has relied upon both WEC and WPS to introduce creative  
11 solutions to improve service in their territories. These utilities have stepped forward on a regular  
12 basis with a variety of proposals crafted from the unique experiences, abilities and backgrounds of  
13 their leadership. One of these laboratories will be lost if this proposed transaction is approved.

14 **Q. Are you concerned about the political impact of a giant Wisconsin utility??**

15 A. Yes. I am. If WPS and WEPCO are controlled by a common Wisconsin holding company, the  
16 combined entity will have enormous political clout and power in Madison with the goal of increasing  
17 shareholder profits. WEC currently is very influential, as evidenced by the PTF program and their  
18 ability to raise their rates at a much faster pace than other utilities as shown in the comparison  
19 below with WPS in Figure 2 below developed with data from each utility's annual PSCW reports.



Combining Integrity's lobbying and governmental affairs budget with WEC's will create an entity with a common vision and goals that will have a substantially increased ability to advocate for higher electric rates in Wisconsin. Poorly funded intervenors will be no match for this newly created entity.

**Q. You mentioned PTF. What is the problem with the PTF program?**

A. When PTF was adopted, the PSCW believed that the program would be beneficial for Wisconsin by improving generating reliability and by keeping electric rates reasonable. Wisconsin now enjoys reliable power but the cost of the PTF program for WEPCO rate payers has been extraordinary. Figure 3 below is a snapshot from WEPCO's 2013 annual PSCW report and reveals that WEPCO recovered lease payments totaling \$286 million for a state-of-the-art power plant that ran at a 23% load factor and produced power at an average cost of 14.76 cents per kWh.

Figure 3

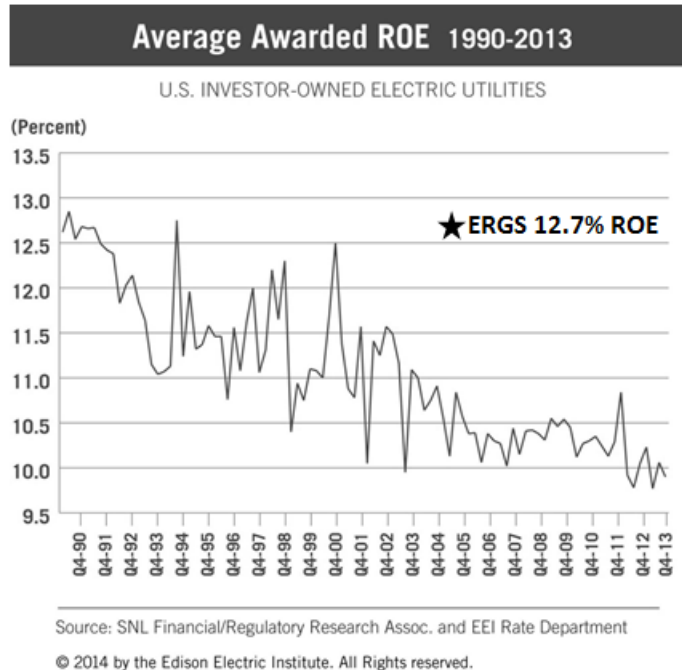
Item (a)	Plant Name: ELM ROAD - UNIT 1 (b)			Plant Name: ELM ROAD - UNIT 2 (c)		
Kind of Plant (Internal Comb, Gas Turb, Nuclear)	Steam			Steam		
Type of Constr (Conventional, Outdoor, Boiler, etc.)	Conventional			Conventional		
Year Originally Constructed	2010			2010		
Year Last Unit was Installed	2011			2011		
Total Installed Cap (Max Gen Name Plate Ratings-MW)	701.25			701.30		
Net Peak Demand on Plant - MW (60 minutes)						
Plant Hours Connected to Load	2,301			5,528		
Net Continuous Plant Capability (Megawatts)	634			634		
When Not Limited by Condenser Water	634			634		
When Limited by Condenser Water	634			634		
Average Number of Employees						
Net generation, Exclusive of Plant Use - KWh (000's)	747,975			2,044,447		
Cost of Plant: Land and Land Rights	1,564,072			1,564,072		
Structures and Improvements						
Equipment Costs	4,512,817			4,512,817		
Asset Retirement Costs						
Total Cost	6,076,889			6,076,889		
Cost per KW of Installed Capacity (line 17/5) Including	9			9		
Production Expenses: Oper, Supv, & Engr	417,329			1,140,690		
Fuel	25,387,507			65,024,136		
Coolants and Water (Nuclear Plants Only)						
Steam Expenses	925,722			2,530,285		
Steam From Other Sources						
Steam Transferred (Cr)						
Electric Expenses						
Misc Steam (or Nuclear) Power Expenses	7,621,445			20,831,766		
Rents	76,668,339			209,558,283		
Allowances				0		
Maintenance Supervision and Engineering	1,089,045			2,976,698		
Maintenance of Structures	887,122			2,424,778		
Maintenance of Boiler (or reactor) Plant	2,633,766			7,198,897		
Maintenance of Electric Plant	(5,231,018)			(14,297,990)		
Maintenance of Misc Steam (or Nuclear) Plant	1,191,905			3,257,846		
Total Production Expense	111,591,162			300,645,389		
Expenses per Net KWh	0.1492			0.1471		
Fuel Kind (Coal, Gas, Oil, or Nuclear)	COAL	GAS	PROP	COAL	GAS	PROP
Unit (Coal-tons/Oil-barrel/Gas-mcf/Nuclear-indicate)	TONS	MCF	GALS	TONS	MCF	GALS
Quantity (Units) of Fuel Burned	283,368	79,286	0	769,458	265	0
Avg Heat Cont - Fuel Burned (btu/indicate if nuclear)	12,952	1,010		12,449	1,010	
Avg Cost of Fuel/Unit, as Delvd f.o.b. during year	81.982	9.048		77.699	5.585	
Average Cost of Fuel per Unit Burned	81.982	9.048		77.699	5.585	
Average Cost of Fuel Burned per Million BTU	316.486	895.840		312.068	553.018	
Average Cost of Fuel Burned per KWh Net Gen	3.129	12.950		2.955	7.057	
Average BTU per KWh Net Generation	9,424.000			9,504.000		
Footnotes						

PTF has proven to be costly for rate payers. With the benefit of hindsight, we have learned that PTF allowed WEPCO to build the Elm Road Generating Station ("ERGS") under creative regulation that has led to high costs for WEPCO rate payers and an underutilized generating asset.

ERGS was built after PSCW approval and special legislation that allows WEC, through its wholly owned subsidiary, We Power, LLC ("WEP") to lock in an extraordinarily high ROE of 12.7% over its lease term. (Wis. Stat. §196.52(9) Figure 4 shows that this 12.7% ROE is near the historic

high for WEPCO's ROE and significantly above the ROE being awarded to other Wisconsin public utilities during that time period or any point thereafter.

Figure 4



By statute, the PSCW is forbidden to consider the 12.7% return when setting ROE in future rate cases. (Wis. Stat. §196.52(9)(c) and (d)). In addition, at the end of the WEP lease, WEPCO has the right to buy the ERGS facility and apparently, depreciate it all over again. (Wis. Stat. § 196.52(b)(8)). The end result of the PTF experiment is that ratepayers are not being supplied with a source of competitively priced power. Fortunately, due to regulatory diversity, no other Wisconsin utilities followed this path.

**Q. Why is this relevant to the proposed transaction?**

A. Because, if the PSCW were to make this type of decision in a larger territory, the negative impact on Wisconsin could be so much greater. The PSCW is well aware of other pilot programs it has tested over the years. Some of these have worked. Some have not. Through regulating four independent utilities in the state, the PSCW is able to continue to lead the nation while receiving

1 valuable input from these four utilities, testing various theories and implementing the best ideas  
2 statewide.

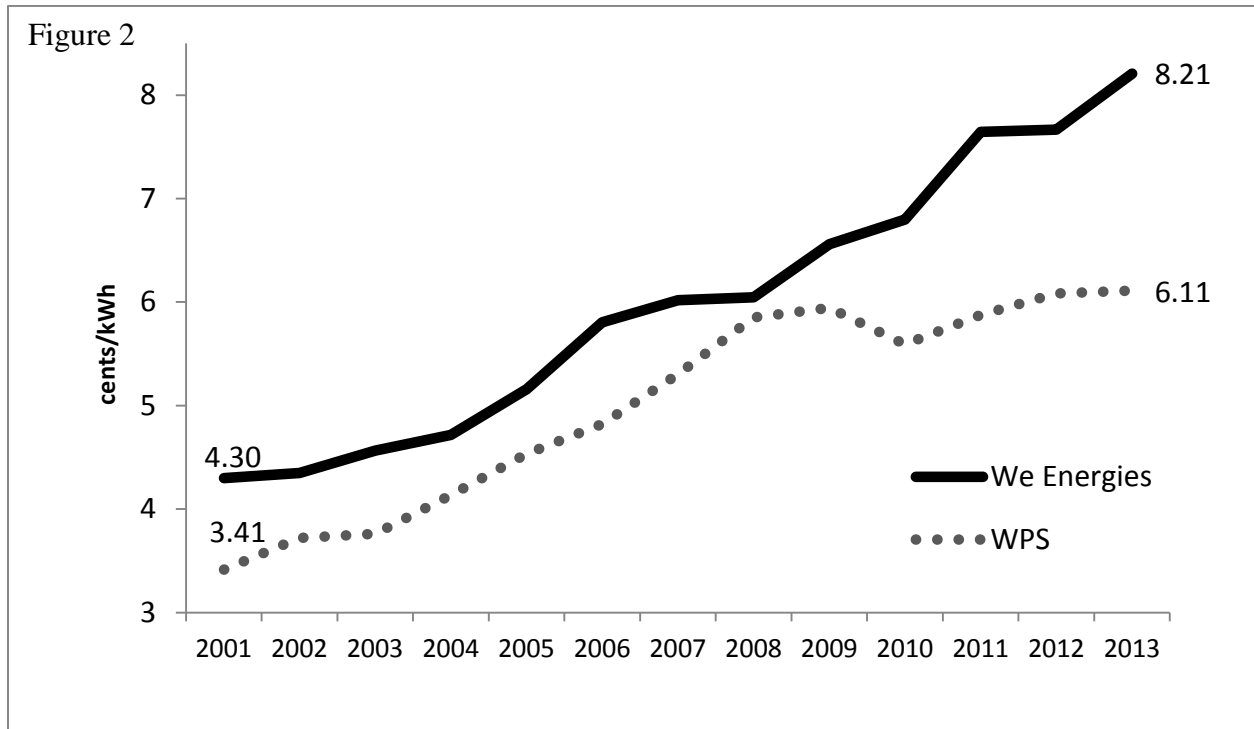
3 **Q. But the proposed transaction is leaving WPS as an independent and separately regulated entity.**

4 **How would the PSCW suffer from a diminished regulatory portfolio?**

5 A. Both WPS and WEPCO will be controlled by the same board, the same holding company and  
6 that board will advance uniform policy within the holding company structure to “maximize  
7 synergies.” In his testimony, WEC expert Mr. Reed states “For example, the scope and size of the  
8 combined company will create more powerful joint sponsorship potential for key infrastructure  
9 projects into the state and the region (eg. Pipeline and transmission).” (PSCW-01.04(c)). By  
10 decreasing the number of independent utilities the PSCW’s regulatory flexibility is compromised and  
11 the Public does not benefit. In effect, WPS and WEPCO will be merged into the largest utility ever  
12 seen in Wisconsin for purposes of utility policy.

13 **Q. Do holding company management styles of regulated utilities really make that big of difference in**  
14 **customer rates?**

15 A. Figure 2 is repeated below and compares the industrial electric rates of WPS and WEPCO  
16 since 2001.



It is clear to see that different managements can lead to different results. WPS costs have been contained and managed much better than WEPCO's costs. As a result, WEPCO's average industrial rates are currently 34% higher than WPS rates and this comparison doesn't tell the whole story. Starting in 2013, WEPCO began recovering less revenue for transmission than its incurred costs. These deferrals now exceed \$500 million and are, in effect, a pending rate increase. (PSCW-03.01). By deferring these transmission costs, the rate differential is much greater than 34%.

**Q. Why do you think that it is not in the best interests of WEPCO's and WPS's customers for the PSCW to approve this transaction?**

A. In 2014, WEC invested \$20 million to investigate and structure the transaction which will deliver immediate benefits to WEC's and Integrys's shareholders and executives (PSCW-01.10 Attachment) with no concrete benefit for rate payers in either service territory. The closest WEC comes to demonstrating any benefit to rate payers at all is a high level study of financial statements

1 from past mergers.(Direct-WEC-Reed) Further, the study ignores the operational intricacies of the  
2 corporations under review. Variations in labor costs, benefits, pension fund performance,  
3 transmission or pipeline charges, regulatory differences, previous and current utility obligations and  
4 a variety of other issues that materially impact non-fuel O&M costs every year are unknown.  
5 Despite these unknowns and without any specifics, Mr. Reed feels confident that WEC will somehow  
6 produce 3 to 5% non-fuel O&M savings over 5 to ten years. I do not share his confidence and there  
7 is no way for the PSCW to evaluate whether any savings over that timeframe were the result of the  
8 transaction or whether the savings would have occurred anyway.

9 WEC uses the phrase “over time” 13 times in its merger application to describe how long it  
10 will take to potentially generate customer benefits (PSC Ref#: 21332). Mr. Reed states “WEC has  
11 made post-merger commitments that will slow the rate at which new merger synergies can be  
12 achieved.” (Direct-WEC-Reed-37) Mr. Reed concluded by stating “No meaningful net savings are  
13 expected in the near term.” (Direct-WEC-Reed-37). Both WPS and WEPCO have already gone  
14 through acquisitions that should have resulted in the synergistic savings alluded to by Mr. Reed. In  
15 fact, rates for both utilities continue to rise.

16 While rate payers are expected to hope for some form of rate relief in the future, the  
17 immediate benefits to WEC and WPS shareholders and executives are clear and quantifiable. In its  
18 application, WEC includes a stock price premium of over \$1 billion for Integrys shareholders  
19 (REF#21332, page 4), \$25.5 million in cash severance for Integrys employees (PSCW-4.07), \$47.6  
20 million in cash payments to Integrys officers (PSCW-4.07), \$140 million in Integrys employee and  
21 director stock “cash outs” (PSCW 18.02(a)), a large dividend increase for WEC shareholders (PSCW-  
22 10.21)), undetermined bonuses for WEC’s executives and job retention guarantees for WEC’s  
23 employees (Direct-WEC-Reed-39) And what will WEPCO and WPS rate payers get out of the deal?  
24 More rate increases.

During its June 23, 2014 WEC investor conference call to discuss the transaction, WEC Chairman and CEO, Gale Klappa stated: “We expect that the combined company will be able to grow earnings 5% to 7% per year... and importantly, more than 99% of these earnings would come from regulated business.” (AG-JA-29, Attachment 1 to Page 4).

Figure 5 shows my estimate of projected rate increases that will be required to achieve WEC’s earnings increase goals with relatively flat load growth.

Figure 5		WEG Revenue Growth Projections										
Current Combined Earnings			Current Revenue									
		(millions)										
	WEC	\$ 577.4										
	Integrlys	\$ 350.0										
	Total	\$ 927.4										
	WEC	\$ 4,500										
	Integrlys	\$ 5,600										
	Total	\$ 10,100										
Assumptions:												
Tax Rate	40%											
ROE	10.20%											
% Equity	50%											
Cost of Debt	6.50%											
Principle Payment and Depreciation based on 30-year straightline												
Negligible load growth												
Length	Earnings Increase											
5 Years	5%											
	Current	Year-1	Year-2	Year-3	Year-4	Year-5						
	Earnings	\$ 927.4	\$ 973.8	\$ 1,022.5	\$ 1,073.6	\$ 1,127.3	\$ 1,183.6					
	Earnings Increase		\$ 46.4	\$ 48.7	\$ 51.1	\$ 53.7	\$ 56.4					
	Pre-tax Increase		\$ 77.3	\$ 81.1	\$ 85.2	\$ 89.5	\$ 93.9					
	Equity Required for Increase		\$ 757.7	\$ 795.6	\$ 835.3	\$ 877.1	\$ 921.0					
	Capital Investment		\$ 1,515.4	\$ 1,591.1	\$ 1,670.7	\$ 1,754.2	\$ 1,841.9					
	Interest		\$ 49.2	\$ 51.7	\$ 54.3	\$ 57.0	\$ 59.9					
	Principle		\$ 50.5	\$ 53.0	\$ 55.7	\$ 58.5	\$ 61.4					
	Depreciation		\$ 50.5	\$ 53.0	\$ 55.7	\$ 58.5	\$ 61.4					
	Depreciation Tax		\$ 20.2	\$ 21.2	\$ 22.3	\$ 23.4	\$ 24.6					
	Revenue Change		\$ 247.8	\$ 260.1	\$ 273.2	\$ 286.8	\$ 301.2					
	Revenue Requirement	\$ 10,100	\$ 10,347.8	\$ 10,607.9	\$ 10,881.1	\$ 11,167.9	\$ 11,469.0					
	Revenue Increase						14%					
10 years	7%											
	Current	Year-1	Year-2	Year-3	Year-4	Year-5	Year-6	Year-7	Year-8	Year-9	Year-10	
	Earnings	\$ 927.4	\$ 992.3	\$ 1,061.8	\$ 1,136.1	\$ 1,215.6	\$ 1,300.7	\$ 1,391.8	\$ 1,489.2	\$ 1,593.4	\$ 1,705.0	\$ 1,824.3
	Earnings Increase		\$ 64.9	\$ 69.5	\$ 74.3	\$ 79.5	\$ 85.1	\$ 91.1	\$ 97.4	\$ 104.2	\$ 111.5	\$ 119.3
	Pre-tax Increase		\$ 108.2	\$ 115.8	\$ 123.9	\$ 132.5	\$ 141.8	\$ 151.8	\$ 162.4	\$ 173.7	\$ 185.9	\$ 198.9
	Equity Required for Increase		\$ 1,060.8	\$ 1,135.0	\$ 1,214.5	\$ 1,299.5	\$ 1,390.4	\$ 1,487.8	\$ 1,591.9	\$ 1,703.3	\$ 1,822.6	\$ 1,950.1
	Capital Investment		\$ 2,121.5	\$ 2,270.0	\$ 2,428.9	\$ 2,598.9	\$ 2,780.9	\$ 2,975.5	\$ 3,183.8	\$ 3,406.7	\$ 3,645.1	\$ 3,900.3
	Interest		\$ 68.9	\$ 73.8	\$ 78.9	\$ 84.5	\$ 90.4	\$ 96.7	\$ 103.5	\$ 110.7	\$ 118.5	\$ 126.8
	Principle		\$ 70.7	\$ 75.7	\$ 81.0	\$ 86.6	\$ 92.7	\$ 99.2	\$ 106.1	\$ 113.6	\$ 121.5	\$ 130.0
	Depreciation		\$ 70.7	\$ 75.7	\$ 81.0	\$ 86.6	\$ 92.7	\$ 99.2	\$ 106.1	\$ 113.6	\$ 121.5	\$ 130.0
	Depreciation Tax		\$ 28.3	\$ 30.3	\$ 32.4	\$ 34.7	\$ 37.1	\$ 39.7	\$ 42.5	\$ 45.4	\$ 48.6	\$ 52.0
	Revenue Change		\$ 346.9	\$ 371.1	\$ 397.1	\$ 424.9	\$ 454.7	\$ 486.5	\$ 520.6	\$ 557.0	\$ 596.0	\$ 637.7
	Revenue Requirement	\$ 10,100	\$ 10,446.9	\$ 10,818.0	\$ 11,215.1	\$ 11,640.1	\$ 12,094.7	\$ 12,581.2	\$ 13,101.8	\$ 13,658.8	\$ 14,254.8	\$ 14,892.5
	Revenue Increase											47%

Figure 6 shows my estimate of potential savings as a percentage of total revenue.

Figure 6

Rate Impact of Potential Savings					
Potential Savings as a Portion of Total Revenue					
WEC Revenue		\$4.5 Billion		(Application-5)	
Integrys Revenue		\$5.6 Billion		(Application-8)	
Total Revenue		\$10.1 Billion			
Potential Savings	(low)	0.066 Billion		PSCW-10.20	
	(high)	0.11 Billion		PSCW-10.21	
Potential savings as a portion of Revenue = potential average rate payer cost decrease					
	Low	0.65%			
	High	1.09%			

After supporting a 17% premium to Integrys shareholders in this \$5.8 billion acquisition, paying WEC for synergy implementation costs and waiting 5 to 10 years while rates increase 14 to 49%, WEC is suggesting that the rate payers may somehow receive savings ranging from .6 to 1%. I don't see this happening.

In short, the Applicants have provided no credible proof that ratepayers will receive any benefit from this transaction but have confirmed that revenue from rate payers will support a multi-billion dollar premium for the privilege of becoming captive rate payers in a much larger utility operated by a holding company with a history of producing high rates.

Also, after the transaction is complete, WEC will own a majority interest in the American Transmission Company. In effect, this is a de facto re-establishment of a vertically integrated utility in Wisconsin. The PSCW long ago voted to approve the creation of an independent "Transco" to lower costs for rate payers. The ATC is regulated by the FERC but even the FERC has admitted that its regulation of the ATC has been ineffectual over the past 10 years. In an Order on Compliance for Docket No. ER13-2379, FERC recently issued new procedures to produce transparency and stakeholder input in the MISO rate process, a process that has been setting rates since the establishment of ATC as described below in Figure 7.

**I. Background**

2. On May 17, 2012, the Commission instituted an investigation, pursuant to section 206 of the Federal Power Act (FPA),<sup>7</sup> to determine whether the formula rate protocols under Attachment O of the Tariff were sufficient to ensure just and reasonable rates.<sup>8</sup> In the Hearing Order, the Commission identified three areas of concern: (1) scope of participation (i.e., who can participate in the information exchange); (2) the transparency of the information exchange (i.e., what information is exchanged); and (3) the ability of customers to challenge transmission owners' implementation of the formula rate as a result of the information exchange (i.e., how the parties may resolve their potential disputes).

3. In the May 16 Order, the Commission found that the formula rate protocols under the Tariff were insufficient to ensure just and reasonable rates, and therefore, directed MISO and its transmission owners to file revised formula rate protocols.

The PSCW has no power to regulate the ATC or to set transmission rates. Wisconsin rate payers are at the mercy of an interstate regulatory system. Once this transaction is approved, WEC will have a controlling interest in the ATC and the PSCW's ability to protect Wisconsin's interests will be further diminished. WPS and WEPCO will have little interest in contesting the transmission tariff at the FERC. WEC will have a 62% economic interest in the ATC so 62% of the profits will flow to WEC shareholders. The higher the transmission tariff, the more WEC will benefit outside of the purview of the PSCW.

**Q. Will shifting cash between utilities be a problem for rate payers if this transaction is approved?**

A. In his testimony, Mr. Lauber states "WEC cash flow is currently strong" and "Integritys' cash flow is currently weaker" and that "The combined company will benefit from WEC's strong cash flow." (01-GLU-05). WEC's strong cash flow can be used to "partially mitigate Integritys' external funding need to support their ongoing capital expenditures" (01-GLU-05), a plan that includes near-term capital expenditure of \$3.5 billion (01-GLU-01). WEC has failed to demonstrate that diverting cash from WEPCO to the Integritys purchase or to fund its utilities is a benefit to WEPCO rate payers

1 or investors. This transaction will allow WEC to use internal cash and assets to subsidize Integrys'  
2 service territories. How is that a benefit to WEC rate payers? We know that WEC's dividends and  
3 financial ratings took a hit when it acquired WICOR a decade ago. Any negative operating results  
4 within the holding company system could negatively impact the financial ratings of two of  
5 Wisconsin's largest utilities.

6 **Q. What effect do higher industrial rates have on Wisconsin's heavy industry?**

7 A. Wisconsin is an important manufacturing state and many of our largest industries require  
8 large electric supply to operate. As shown previously in Figure 1, over the past 12 years or so,  
9 Wisconsin's industrial electric rates have exploded and now are not competitive with peer states.  
10 Electricity is in the top three input costs for most large manufacturers in Wisconsin and, as  
11 electricity rates continue to rise, Wisconsin's manufacturers are becoming uncompetitive. Wisconsin  
12 needs initiatives to restore electric rates to competitive levels. Approval of this transaction will take  
13 us in the opposite direction. Thousands of manufacturing jobs are on the line and the economic  
14 damage to Wisconsin will be pronounced if heavy manufacturing leaves for lower cost states.  
15 Capital investment is global. Capital flows to wherever it can earn the highest rate of return. This  
16 transaction could have a negative effect on capital flowing into Wisconsin and drive Wisconsin's  
17 manufacturing costs even higher.

18 **Q. Why do you think that the interests of Wisconsin's utility investors will not be harmed in their**  
19 **ability to raise capital in the future if this transaction is not approved?**

20 A. It is unlikely that Wisconsin's regulated utilities will suffer any diminution in ability to raise  
21 debt or equity capital if this transaction is not approved. WEC tried to merge with Northern States  
22 Power back in 1998 and it suffered no inability to raise capital after that merger failed. No Wisconsin  
23 utility currently faces problems raising capital at competitive rates. Again, capital investment is  
24 global and seeks the highest return and Wisconsin's regulated utilities are a very good investment.

Each Wisconsin operating utility is regulated as a public utility and its bond rating is based, for the most part, on the strength of its balance sheet and the quality of its earnings. Investors buy utility shares based on regulatory stability and operating results. Wisconsin's utilities are very well regulated and Wisconsin utility share values are very high in comparison to peer utilities in other states. This is due, to some extent, to the high electric rates in Wisconsin. If Wisconsin monopoly utilities can squeeze Wisconsin's rate payers, Wall Street will reward them with higher share prices. This may explain why Wall Street believes Integrys shares are worth a 17% premium. With 99% of WEC earnings supported by regulated utilities, this is a great deal for investors. That being said, rejection of this transaction will not communicate to the investment world that Wisconsin will not ever approve a utility company acquisition. This particular transaction will only involve the elimination of one independent management team operating one of our largest public utilities.

**Q. In your opinion, Should the PSCW approve this transaction under certain conditions?**

A. I recommend the PSCW deny WEC's request to approve this transaction because it is not in the public's best interest and rate payers will simply not benefit in any meaningful way from the transaction. If WEC wishes to offer some credible, tangible benefits, we would reconsider our opinion. A partial list of potential benefits could include WEC:

1. Agreeing to allow high-voltage customers to purchase electric power at retail tariff prices that shadow wholesale power prices to make Wisconsin's industry competitive again.
2. Agreeing to adjust the ROE in the current PTF leases to match the level determined as reasonable in each rate case.
3. Agreeing to mitigate the costs of excess generation capacity by allocating a portion of the PTF lease costs to wholesale operations in lieu of retail operations and/or foregoing recovery of ROE and PTF lease payments for assets that are not used and useful.

1 4. Agreeing to absorb the balance of WEPCO's transmission deferral account (approximately \$500  
2 million) by the end of 2016 to remove the threat to WEPCO rate payers of rate shock in future  
3 years.

4 5. Agreeing to divest its controlling interest in the ATC.

5

6 **Q. Does this complete your testimony?**

7 A. Yes it does.